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SENSITIVE
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TAGS: ECON EFIN EINV ETRD PGOV PREL PK
SUBJECT: GOP UNVEILS NEW THREE-YEAR TRADE POLICY

¶1. (SBU) Summary: The Government of Pakistan (GOP) unveiled its 2009-2012 trade policy with the primary goal of growing exports by 29 percent over the next three years. The policy focuses on making Pakistan more competitive both internationally and domestically, but covers incentives for only non-textile exports (46 percent of total exports); a separate policy for textiles was released August 13. Despite assurances by Commerce Secretary Suleiman Ghani that the budget contains adequate means to finance these new incentives, it is unclear how much priority funding the USD 430 million policy initiative will get in light of Pakistan's competing budgetary demands. End Summary.

Focus on Competitiveness

¶2. (SBU) The Ministry of Commerce introduced on August 2 the 2009-2012 trade policy. This three-year policy is intended to serve as a "medium-term road map" and is focused on enhancing the country's competitiveness. Secretary Commerce Suleiman Ghani told Econ Counselor and visiting Senior Economist on August 3 that one of the program's main aims is to reduce the cost of doing business in Pakistan. Other goals are to promote small and medium enterprises (SMEs); add value and sophistication to Pakistani products, particularly in non-traditional sectors; and promote agricultural development through exports. Specifically, the GOP hopes to improve Pakistan's competitiveness ranking on the World Economic Forum's Global Competitiveness Report from 101 to 75; to increase the share of engineering exports from 1.5 to 5 percent; and to expand regional trade from 17 percent to 25 percent. The policy sets a target to increase exports by 29 percent over the next three years, with an export growth rate target for 2009-10 of 6 percent, and 10 percent and 13 percent for each of the successive years.

The Context

¶3. (SBU) The policy highlights the challenges affecting business and trade: a massive electricity deficit; poor infrastructure; low labor productivity; low levels of value-added manufacturing; little foreign direct investment in manufacturing and exportable sectors; increasing costs of production; lack of product diversification in exports; and an absence of economies of scale in the production processes, especially in the small and medium enterprise sector, which accounts for the vast majority of the businesses in the

country. In light of the difficult economic environment, Ghani was particularly proud that the Ministry had resisted persistent efforts by business to insert protectionist measures, and had also held the line against pleas for additional subsidies and bailouts.

¶4. (SBU) In FY 2008-09, consumption decreased in the developed world and shrinking of global trade decreased Pakistan's exports 6.7 percent to USD 17.8 billion. Imports fell by 13 percent to USD 34.9 billion. Although non-textile exports have surged globally, Pakistan's share of the market in non-textile manufactured goods has dropped to USD 3.12 billion in 2008-09 or 17.32 percent of total exports. Pakistan's neighbors, however, have significantly enhanced their share of the market of non-textile goods. Ghani stressed that Pakistan's goal is to regain market share lost to countries in the region, while recognizing that the GOP must provide some assistance for domestic industries in distress.

The Plan

¶5. (SBU) The policy calls for the creation of five separate funds to handle the different components of trade in Pakistan. The first fund will focus on product development and marketing in the light engineering sector at a cost of USD 30.5 million. The second fund, in collaboration with the Ministry of Finance and the SBP, will hedge interest rate fluctuations in an effort to provide stability on short- to medium-term bases. The third will aim to upgrade the technology, skills and management capacity at a cost of USD 36.6 million to support research and development and training activities. The Export Development Fund will provide assistance to Pakistani

service exporters in tendering or negotiating international projects and for conducting pre-feasibility or feasibility studies. Finally, the Export Investment Support Fund is a catch all that can be used to do everything from compensate inland freight costs of non-textile goods exporters to establishing research and development centers and centers of excellence.

¶6. (SBU) Commerce Secretary Ghani told Econ Counselor August 3 that the GOP has taken account of these new financial obligations in the budget, including use of a USD 732 million "industrial revitalization" Ghani said was approved in the FY 2009-2010 budget (Comment: ECON has not been able to find such a line item in the budget, but this could be a long-term fund over several years. End Comment). While perhaps not specifically outlined in the budget, the Commerce Ministry clearly intends to take advantage of different resources from the different divisions and ministries for a more holistic approach.

COMMENT

¶7. (SBU) The ambitious agenda set forth by the Commerce Ministry highlights some important issues such as the effect of the electricity shortage and the focus on boosting the value-added of Pakistan's exports and incentives to promote better use of new technologies. However, the export growth targets, especially those set for years two and three, seem optimistic in light of lagging technology in many sectors, the absence of diversified markets and FDI in the non-oil commodity sector -- all compounded by the global economic slowdown. The lack of dedicated funding for the policy also strikes us as a serious potential pitfall, since competing demands on an already optimistic budget may in the end give short shrift to this new effort. But if this effort by the Commerce Ministry can help to streamline government processes and focus government support on profitable, yet under-appreciated sectors of the productive economy, it is a step in the right direction. End Comment.

PATTERSON